

Testimony of
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President of the Nebraska Pork Producers Association
on behalf of the
National Pork Producers Council
Before the
Senate Committee on Agriculture, Nutrition and Forestry
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INTRODUCTION

Good morning Chairman Chambliss, Ranking Member Harkin and Members of the Committee. I am Bill Luckey, a pork producer from Columbus, Nebraska. My family and I own and operate a diversified farm which has been in our family for over 60 years. My operation finishes 8,000 market hogs annually. Along with our swine operation, we have a cow/calf herd, and also produce row crops. I am the current President of the Nebraska Pork Producers Association (NPPA). We are very grateful to you for holding this field hearing and for this opportunity to provide you with the pork industry's views on what is working and what we need to improve upon as you consider the reauthorization of the 2002 Farm Bill.

Pork producers have been actively engaged in discussions related to crafting the 2007 Farm Bill. We have organized a 2007 Farm Bill Policy Task Force that is in the process of reviewing and evaluating many of the Farm Bill issues that will affect our industry. As pork producers, our livelihood is tied to many other agriculture commodities.

We look forward to enthusiastically participating in the discussions for the 2007 Farm Bill. This morning I would like to share some general comments and thoughts the nation's pork producers have about the 2007 Farm Bill. Pork producers make an investment in the industry to maintain a competitive edge domestically and globally. The 2007 Farm Bill should also make an investment in competitiveness by increasing and encouraging research, opening access to new markets, enhancing conservation efforts and rewarding producers for good practices. Taking these important steps will maintain a vibrant agriculture sector that provides a safe and secure food supply, innovative fuel options using our natural resources and continued abundant feed for our animals.

I want to thank you Mr. Chairman and Members of this Committee for the opportunity to address you today. The policy issues we discuss together affect

me, my fellow Nebraska farmers and pork producers across this country. We know the members of this Committee understand better than anyone the significant economic contribution that pork producers make to the U.S. agricultural sector and how important it is to grow our international markets and maintain our global competitiveness.

PROFILE OF TODAY'S PORK INDUSTRY

Pork producers' farm-gate receipts were approximately \$15 billion in 2005, representing almost a quarter of the value of meat animals produced by U.S. farmers and slightly more than 10 percent of the total farm-gate receipts received by all farmers. In Nebraska our 2005 farm-gate receipts were \$768 million, up from 2004. Nebraska is one of the largest pork producing states in the nation by any measure, ranking 5th in commercial hog slaughter and carcass weight production and 6th in live weight production and inventory.

The U.S. pork industry enjoyed its 15th consecutive year of record exports in 2005. We exported 905 million metric tons of pork and pork products valued at \$2.28 billion. In addition, we exported 164,000 metric tons of pork variety meats valued at \$378 million. These shipments amounted to \$25.44 per head slaughtered.

Pork producers, along with the other livestock and poultry producers, are the single biggest customers for U.S. feed grain producers. Our single largest expense, by far, is the feed we purchase for our animals. USDA estimates that livestock feed will account for 6 billion bushels (54 percent) of total corn usage this year. Here in our state we know that well over 50% of Nebraska-produced corn is fed to livestock.

While USDA does not have a specific estimate of the amount of soybean meal used for livestock feed, suffice it to say that livestock will use the vast majority of the 34.25 million tons of domestic soybeans produced in 2005. Of these totals,

pigs consumed just over 1 billion bushels of corn and the meal from nearly 418 million bushels of soybeans in 2005. Pork producers are strong and vital contributors to value-added agriculture in the U.S., and we are deeply committed to the economic health and vitality of our businesses and the communities that our livelihoods help support.

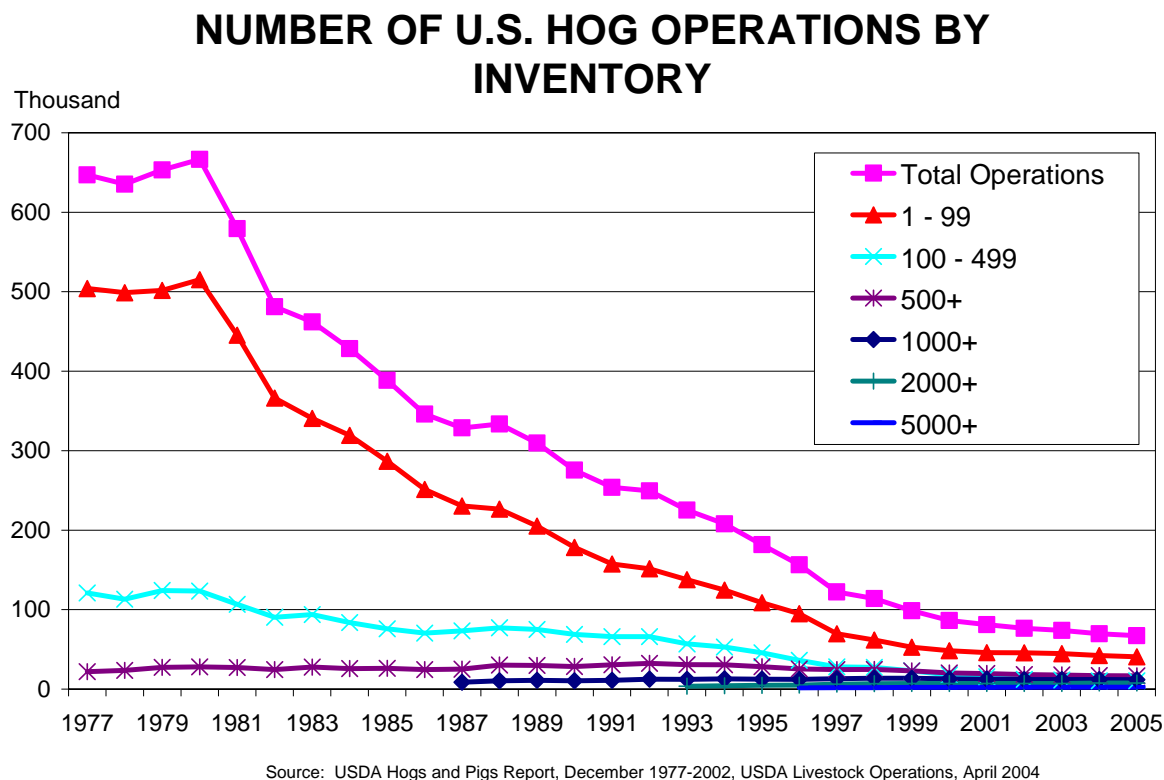
Pork production has changed dramatically in this country since the early and mid-1990s. Technology advances and new business models changed operation sizes, production systems, geographic distribution, and marketing practices. The demand for meat protein is on the rise in much of the world. Global competitiveness is a function of production economics, environmental regulation, labor costs and productivity. The United States can continue to be a leader in food production and meet the needs of increased consumer demands.

The U.S. pork industry today provides more than 20 billion pounds of delicious, wholesome and nutritious meat protein to consumers worldwide each year. In fact, 2006 will be the fifth consecutive year of record pork production in the United States, and all indicators point to another record in 2007. This is accomplished by nearly 67,000 pork operations in all 50 states, though the lion's share of production is located in the upper Midwest, mid-Atlantic, and High Plains states.

The number of operations today is much smaller than in years past, mirroring a trend that is widespread throughout agriculture. Figure 1 shows the number of operations of various sizes since 1977. The decline has been driven by the general downtrend in farm numbers and the fact that there are substantial economies of scale in hog production. USDA data indicate, for instance, that large hog farms average 1.5 pigs per litter more than small hog farms (USDA Hogs and Pigs Report, December 2005). Reasons for these advantages include specialization of labor and management and the ability to adapt modern technologies, such as group farrowing and split-sex feeding.

U.S. pork production units have changed from single-site farrow-to-finish (ie. birth to market) production systems, which were generally family-owned and small by today's standards, to multi-site specialized units, which may be part of very large businesses – many of which are still family-owned. The changes were driven by the biology of the pig and the business challenges of the modern marketplace. Separate sites helped in controlling troublesome and costly diseases and enhanced the effect of specialization. Larger operations can spread overhead costs (such as environmental protection investments and expertise) over more units and buy in large lots to garner lower per-unit input costs. The change in size has been the natural result of economics, plain and simple.

Figure 1



Marketing methods have changed as well. As recently as the early 1980s, a significant number of hogs were traded through terminal auction markets. Larger

producers, though, began to bypass terminal markets and even country buying stations to deliver hogs directly to packing plants to minimize transportation and other transaction costs. Today, few hogs are sold through terminal markets and auctions, and the vast majority of hogs are delivered directly to plants.

Pricing systems have changed dramatically as well - from live-weight auction prices to today's carcass-weight, negotiated or contracted prices with lean premiums and discounts paid according to the predicted value of individual carcasses. The shift to lean premiums and discounts was largely responsible for the dramatic increase in leanness seen in the 1990s.

According to researchers at the University of Missouri, the price of about 11 percent of all hogs purchased during January of this year was negotiated on the day of the agreement. All others were packer-produced or sold on marketing contracts wherein prices were not negotiated one lot or load at a time but determined by the price of other hogs sold on a given day, the price of feed ingredients that week or the price of Lean Hog futures on the Chicago Mercantile Exchange. These contracts are entered into freely and often aggressively by producers and packers alike to ensure, respectively, a market and a hog supply and, in some cases, to reduce the risk faced by one or both parties.

The economic impact of this industry is immense. Iowa State University researchers estimated that in 2003, the production sector directly employed more than 33,000 people and supported a total of 565,781 jobs in the U.S. economy. This estimate includes the jobs in sectors such as feed, supplies and processing that directly interact with pork producers as well as those in the rest of the economy that are stimulated by the spending of owners and workers. This vast economic impact included total economic activity of more than \$83.6 billion, total value-added of \$20.8 billion and total employment income of \$32.5 billion.

As the U.S. pork industry evaluates the reauthorization of the 2002 Farm Bill, we have formulated some guiding principles for Congress to consider. Principle number one: we must maintain our competitive advantage. Principle number two: we must strengthen our competitiveness. Principle number three: we must defend our industry.

MAINTAIN OUR COMPETITIVE ADVANTAGE

The next Farm Bill should help the U.S. pork industry maintain its current points of competitive advantage. These include low production costs, unparalleled food safety, further advancements in animal health and consumer-driven further processing.

Low Production Costs

Low production costs are the result of affordable feed ingredients and efficient production units. The Farm Bill can help the U.S. industry on both counts by maintaining and enhancing programs that keep feed ingredient prices competitive with the rest of the world. Feed comprises 65-75 percent of the input cost of producing a market hog. (Each market pig consumes approximately 10.5 bushels of corn and 200 pounds of soybean meal – that's about 4 bushels of soybeans.) With that in mind, U.S. pork producers are concerned about the impact on our industry of the increased use – sometimes through mandates – of corn-based (ethanol) fuels.

U.S. pork producers believe that this country needs a strong renewable energy policy. However, such an energy policy cannot come at the expense of the livestock industry. The current focus on renewable fuels is laudable, but markets must be neither distorted by subsidies and taxes nor constrained by mandates to the point where they cannot send effective price signals. Further research and development are needed to find other energy alternatives, such as using animal manure and fat and biomass, including switchgrass and corn stover. Because this is an issue of high importance to producers, the NPPC board of directors recently

directed the Farm Bill Task Force to establish a Renewable Fuels working group. We want to emphasize that the right balance is needed to meet the needs of fuel *and* feed security.

Unparalleled Food Safety

U.S. pork producers have made unparalleled food safety their highest priority. The pork industry has been very responsive to the issue of residues in the food supply and will continue to be vigilant in these efforts. Residues are found in less than .02 percent of all animals marketed. Success in reaching this small percentage is due in part to industry-sponsored producer education programs that help producers understand how and why we need to reach these goals. We believe that adequate funding for the Agricultural Research Service (ARS) and Food Safety Inspection Service (FSIS) is needed to allow those agencies to do what it takes to continue their work in keeping the U.S. pork supply safe and wholesome.

Further Advancements In Animal Health

U.S. pork producers support efforts underway in the Animal and Plant Health Inspection Service (APHIS) to address emergency animal disease outbreaks and efforts to implement a national animal disease programs. The Nebraska Pork Producers Association and the NPPC support a mandatory species-specific animal identification system that enables USDA to meet a 48-hour trace-back goal. The pork industry has publicly committed to working toward having our swine premises registered and identified by December 2007 and a mandatory swine identification system for all relevant species by December 2008. For the U.S. pork industry, premise identification is the key to meeting the 48-hour trace-back goal, and we will continue to place a strong emphasis on achieving our industry's goals. Premise registration is the firm foundation for any National Animal Identification System (NAIS) that is capable of responding to an emergency

animal disease outbreak. At this time, there is insufficient swine-specific surveillance data, and NPPC is very concerned that without swine-specific surveillance data to determine the prevalence of swine diseases, we would be unable to act quickly to prevent disease spread or to make certifications to our trading partners about diseases in the U.S. We also believe that a mandatory animal identification system can be implemented under authority of the Animal Health Protection Act, eliminating the need for additional legislation. However, we strongly believe that before an effective animal identification system can be put in place, the Federal government must fund the development and maintenance of a database and provide the infrastructure necessary to support such a system.

Consumer-Driven Further Processing

We must continue to meet the demands of our consumers. Therefore, we should allow the structure of the production and packing sectors to change with the demands of the marketplace. This includes allowing producers and packers to change to adopt new technologies and capture economies of size and scope. The U.S. pork-packing sector is the envy of the world in terms of efficiency, and Congress must be careful not to take away or hamper this source of international advantage. Allowing producers and packers the freedom to develop new ways of doing business will only enhance the value of U.S. pork products, home and abroad, and reduce costs and risks. A key issue here is workable immigration reform that allows us to maintain a viable workforce without significantly increasing labor costs or placing the law enforcement burden on pork producers.

STRENGTHEN OUR COMPETITIVENESS

In addition to maintaining our competitive advantage, the next Farm Bill should strengthen that position by expanding and including such elements as trade assistance, research, risk management tools and science-based conservation programs and environmental regulations.

Trade

At the present time, there is a considerable global demand for pork and pork products. Pork represents 44 percent of global meat protein intake, far more than beef and poultry. World pork trade has grown from 3.9 percent to 5.3 percent of total world pork consumption in just the past 5 years. The extent of this increase in global pork trade in the future will hinge heavily on continued efforts to increase agricultural trade liberalization.

Here are some revealing statistics about U.S. pork trade and the important role of trade agreements:

- U.S. exports of pork and pork products have increased by more than 332 percent in volume terms and by more than 289 percent in value terms since the implementation of NAFTA in 1994 and the Uruguay Round Agreement in 1995.
- The U.S. has exported a new record amount of pork each year for the last 15 years and now exports over 15 percent of its total production.
- Exports to Mexico, our number one volume market and number two value market, have increased by 279 percent in volume terms and by 406 percent in value terms since NAFTA.
- China, a recent entrant to the WTO, has become, due to diverse cultural preferences and tastes, a huge marketplace for U.S. pork variety meats that have very little value at home. Shipments of pork variety meats to China exploded by 690 percent in volume and 750 percent in value in 2004 before growing by 27 percent and 33 percent, respectively, in 2005.
- The Center for Agriculture and Rural Development at Iowa State University estimates that U.S. pork prices were \$33.60 per hog higher in 2005 than they would have been in the absence of exports.

U.S. pork producers have been and continue to be strong supporters of trade agreements. We support open markets. We support the Market Access Program (MAP) and the Foreign Market Development Program (FMD), which help expand opportunities for U.S. pork, and we urge continued funding for these

programs that have long-term market benefits. It is important to emphasize the need to strengthen the ability of U.S. agriculture to compete in the global marketplace.

American agriculture is among the most competitive industries in the world, but it should not be expected to compete alone in the export markets against foreign governments. Reductions of MAP and FMD funding would put American farmers at a substantial competitive disadvantage.

The downside of growing exports is, of course, the larger economic impact should there be any disruption in trade. Pork producers understand this dynamic and recognize that trade disruption would be devastating for the U.S pork sector. We would welcome the opportunity to work with this Committee to develop risk management tools that would support producers and packers should our export markets ever be interrupted by a serious animal disease outbreak.

Regardless of the timing in writing a new Farm Bill, Congress should extend Trade Promotion Authority or TPA. TPA is very important to U.S. agriculture and the U.S. livestock sector – it provides new avenues for trade and sends to our trading partners the message that the U.S. is a willing and open trading partner. As pork producers, we should emphasize the need to strengthen the ability of U.S. agriculture to compete efficiently in the global and domestic marketplace.

Research

To maintain the U.S. pork industry's competitive advantage, we must invest in research. USDA's research is critical to the pork industry, be it improving swine genetics by completing the mapping of the swine genome, testing and deploying new and improved animal vaccines, improving the usefulness of energy production by-products, such as distillers dried grains, or further increasing animal productivity. Research can assist in monitoring diseases and preventing a disease outbreak. A significant amount of research has been devoted to other

animal genomes. It is time for USDA to do the same for the swine genome. Genome sequencing is only the first step to unlocking key genetic information. Annotation is the identification of the functional genes associated within the sequence of the genome and will provide the industry with tools to quickly and efficiently improve production efficiencies in nutrition, swine health, reproductive physiology, animal welfare, nutrient management and pork quality. In addition, the pig is an excellent model for human research in health and nutritional disciplines. Annotation of the swine genome will assist in the development of research models in human nutrition, physiology and medicine.

Risk Management

Although production variability has stabilized, pork producers still face significant price risk. The USDA Livestock Risk Protection program and an Iowa program, which protect livestock producers' margins above feed costs, have both had limited success. We believe that the USDA should critically evaluate both of these programs to determine if changes can make them more useful and thus more widely accepted by pork producers. These have worked relatively well, but the usage rate could be increased. We do not believe that any national programs should be overly subsidized.

In addition, we believe that more attention should be given to whole-farm programs that would include livestock. Iowa was one of the pilot states for whole-farm coverage and, in most cases, demonstrated how livestock revenue assurance together with crop insurance can reduce premiums compared with insuring enterprises separately.

As noted in the section on Trade above, we also urge the Committee to consider risk management tools to cover producers and packers should export markets be disrupted by a serious animal disease outbreak.

Conservation and the Environment

Conservation and natural resource stewardship are areas that are most important to our producers. Nationally and in Nebraska, pork producers are committed to running productive pork operations while they meet and exceed environmental regulations. Pork producers have fought hard for science-based, affordable and effective regulatory policies that meet the goals of today's environmental statutes. For us to meet these costly demands while maintaining production, we believe that the federal government must provide cost-share support to help us defray some of the costs of compliance through conservation programs of the Farm Bill, namely through the Environmental Quality Incentives Program (EQIP) of the 2002 Farm Bill.

As my fellow pork producer Randall Spronk from Minnesota stated during his testimony before this Committee, the EQIP program has not provided pork producers with the support to the challenges we face related to conservation and the environment. I would refer you to the testimony he presented during the June 7, 2006, hearing in Washington, D.C. ¹

Pork producers take a broad view of what it means to be environmentally responsible farmers and business people, and we have fully embraced the fact that our pork processing operations must protect and conserve the environment and the resources we use and affect. We take this responsibility with the utmost seriousness and commitment, and it is in that spirit that our producer members would make major contributions to improving our practices through the Conservation Title of the 2002 Farm Bill. We will continue our efforts to improve the programs in the Conservation Title.

DEFEND OUR INDUSTRY

¹ Testimony of Randall Spronk on behalf of the National Pork Producers Council before the Senate Committee on Agriculture, Nutrition and Forestry concerning the Implementation of the Conservation Title of the 2002 Farm Bill; June 7, 2006 See: <http://agriculture.senate.gov/Hearings/hearings.cfm?hearingid=1923&witnessId=5385>

The next Farm Bill should defend the competitive position of the U.S. pork industry by not imposing costs on and restricting the industry from meeting consumer demands in an economical manner. Government intervention must not stand in the way of market-based demands. We must work against efforts to ban marketing contracts, activists' positions on animal care and housing and other efforts that will harm the agriculture sector.

Marketing Practices

We understand that the issue of banning packer ownership of livestock or eliminating forward contracting continues to be discussed. However, we do not believe that U.S. pork producers will be well-served by having Congress eliminate certain types of contracting mechanisms. This only forces the livestock markets to revert back to an inefficient system used more than half a century ago in which livestock was traded in small lots and at prices determined in an open-market bid system. This system was inefficient and makes no economic sense in today's economy—it died out in the '70s and '80s because it was inefficient. Today, the U.S. pork industry has developed a wider variety of marketing and pricing methods, including contracts, to meet the changing needs of a diverse marketplace.

Industry Structure

We should allow economics to determine the structure of production and processing, including the ownership of both. No economic research has ever shown that either the structure or marketing practices of the industry have harmed producers or consumers. While the NPPA strongly supports the constitution of the state, which includes the Initiative 300 provision that places restrictions on some ownership and partnership arrangements, questions have surfaced in recent years about the effectiveness of this mandate. Having been approved over 20 years ago with the intention of protecting family farms, this constitutional provision in essence places a ban on packer ownership of livestock in our state.

Questions from our producer members led the NPPA to support the efforts to evaluate the economic effects of I-300 on our states economy. As producers we recognize that farm policy must mature with the every changing ag economy, thus our desire to have our swine industry organization in the state establish such a position.

In doing so we recognize that the issue of captive supply is an emotional and controversial issue among livestock producers and NPPA does not support the establishment of legislative policy driven by emotion.

Until such research exists, the NPPA does not oppose the National Pork Producers Council policy that Congress should not impose limitations on packer ownership of production, producer ownership of packing, or marketing contracts.

Miscellaneous

Mr. Chairman and Members of the Committee, it is not news to you or the U.S. livestock sector that activist groups and special interest groups will be watching this 2007 Farm Bill debate and will attempt to push their particular agenda by adding regulations to our business practices, be it a social or animal rights or welfare or obesity agenda. We must be cautious about allowing these issues and alternative agendas to be added to the 2007 Farm Bill – a piece of legislation that has been aimed for the past 50 years at maintaining the competitiveness of U.S. agriculture and the U.S. livestock sectors.

The U.S. pork industry has developed and implemented strict animal care practices and judicious use guidelines for animal drugs. These programs are now part of the industry's pork quality assurance and trucker quality assurance programs. These programs require producers and handlers to be trained and certified to care and transport our animals with the utmost concern. We do not believe that Congress should legislate on these issues as part of the 2007 Farm Bill.

CONCLUSION

In conclusion, Mr. Chairman and Members of this Committee, my comments this morning are preliminary. As the NPPC's 2007 Farm Bill Policy Task Force proceeds in its deliberations on the development of the U.S. pork industry's positions related to the 2007 Farm Bill, we would be pleased to share our industry's thoughts and suggestions on the 2007 Farm Bill.

Together, I believe we can craft a Farm Bill in 2007 that meets our objective of remaining competitive producers in both domestic and world meat markets. We look forward to the journey and believe your leadership will allow the U.S. agriculture sector to continue to prosper for many years to come.

On behalf of the National Pork Producers Council, the Nebraska Pork Producers Association and the many pork producers we represent, thank you for holding this hearing. We respectfully request your continued and focused attention to the matters we have brought to you today.